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SOUTH VERNON WATERWORKS DISTRICT NO. 1

FINANCIAL STATEMENTS

December 31, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/19/05

SOUTH VERNON WATERWORKS DISTRICT NO 1
December 31, 2004

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REQUIRED SUPPLEMENTAL INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH VERNON WATERWORKS DISTRICT NO. 1
December 31, 2004

Management's Discussion and Analysis

Our discussion and analysis of the South Vernon Waterworks District No. 1 (the District) financial performance provides an overview to the District's financial activities for the year ended December 31, 2004. Please read in conjunction with the District's basic financial statements which begin on page 8.

Financial Highlights

- * The District's net assets decreased by \$7,312 during the year ended December 31, 2004. The decrease in net assets is attributable to a slight \$80,674 increase in operating revenue for 2004 offset by lesser nonoperating revenues of \$50,243 and over \$200,000 in depreciation and interest expense..
- * While total net assets decreased by \$7,312, there was also a decrease of \$103,097 in unrestricted net assets. Unrestricted net assets are those assets available to meet the day- to day operating needs of the District. This was caused by an increase of \$135,546 in restricted assets.

Using This Annual Report

This annual report consists of Management's Discussion and Analysis, the basic financial statements, and notes to the financial statements. Management's Discussion and Analysis provides a narrative of the District's financial performance and activities for the year ended December 31, 2004. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- * The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- * The Statement of Activities presents information showing how the District's net assets changes during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.
- * The Statement of Cash Flows presents information showing how the District's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

See Independent Auditor's Report

Financial Analysis of the District as a Whole

A summary of net assets is presented on the next page.

See Independent Auditor's Report

SOUTH VERNON WATERWORKS DISTRICT NO. 1

December 31, 2004

Management's Discussion and Analysis

Table 1
Net Assets

		<u>2004</u>	<u>2003</u>	<u>% Change</u>
Current Assets	\$	76,840	\$ 71,113	8.05%
Restricted assets		285,920	150,374	90.14%
Capital assets, net of depreciation		<u>2,677,546</u>	<u>2,762,275</u>	(3.16)%
Total Assets	\$	<u>3,040,306</u>	\$ <u>2,983,762</u>	<u>1.90%</u>
Current liabilities	\$	7,399	\$ 5,049	46.54%
Current liabilities payable from restricted assets		208,175	120,757	72.39%
Noncurrent liabilities		<u>2,927,547</u>	<u>2,944,913</u>	<u>9.59%</u>
Total Liabilities		<u>3,143,121</u>	<u>3,070,719</u>	<u>2.36%</u>
Invested in capital assets		(257,601)	(288,829)	12.13%
Unrestricted net assets		(126,234)	170,842	(152.19)%
Restricted -Meter Deposits		5,371	1,414	279.85%
Restricted debt service		<u>275,649</u>	<u>29,617</u>	<u>110.61%</u>
Total Net Assets	\$	<u>(102,815)</u>	\$ <u>(86,956)</u>	<u>(18.23%)</u>

Invested in capital assets represents the District's long-term investment in capital assets, net of accumulated depreciation, and is not available for current operations.

A summary of changes in net assets is presented below.

Table 2
Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>%Change</u>
Operating revenues (charges for services, leases and other)	\$ 279,209	\$ 198,535	40.63%
Non-operating revenues (government subsidies and interest income)	<u>73,910</u>	<u>124,153</u>	<u>(67.98)%</u>
Total Revenues	<u>353,119</u>	<u>322,688</u>	<u>9.43%</u>
Operating expenses			
Depreciation	84,729	85,424	(.82)%
Other	<u>284,247</u>	<u>367,076</u>	<u>(33.15)%</u>
Total Expenses	<u>368,976</u>	<u>452,500</u>	<u>(25.55)%</u>
Change in net assets	\$ <u>(15,857)</u>	\$ <u>(129,812)</u>	<u>1,675.82 %</u>

See Independent Auditor's Report

SOUTH VERNON WATERWORKS DISTRICT NO. 1

December 31, 2004

Management's Discussion and Analysis

Capital Assets

At December 31, 2004 and 2003, the District had \$(257,601) and \$(288,829) respectively, invested in capital assets , including land, buildings, improvement, equipment, furniture and fixtures at net value after depreciation and net of related debt. There are no additions to capital assets during the year ended December 31, 2004.

Current Liabilities Payable from Restricted Assets

The District's current liabilities payable from restricted assets consist primarily of current maturities on two general obligations bonds plus the related accrued interest payable, plus the accrued interest and maturities on two revenue bonds. These liabilities increased by \$87,418 or 72.39% in 2004..

Non-Current Liabilities

The District's noncurrent liabilities decreased by \$17,366. The predominant reason for the reduction was payment of scheduled general obligation debt in 2004, plus anticipated rescheduling of the larger USDA note.

Other Currently Known Facts, Decision, or Conditions

In management's opinion, the cash flow from the District's operations will continue to be only adequate to meet debt service and operating costs. The customer base of approximately 750 customers needs to be at least 900 customers to properly fund the existing debt.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the South Vernon Waterworks District No. 1 at P. O. Box 436 , Rosepine, Louisiana.

See Independent Auditor's Report

ELLIOTT & ASSOCIATES, INC.

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W. Micheal Elliott, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
South Vernon Waterworks District No. 1

I have audited the accompanying basic financial statements of the South Vernon Waterworks District No. 1, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the South Vernon Waterworks District No. 1's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 1(A), the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2004.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 14, 2005, on my consideration of South Vernon Waterworks District No 1's internal control over financial reporting and my tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of South Vernon Waterworks District No. 1. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Elliott & Assoc "APAC"

Leesville, Louisiana
September 14, 2005

BASIC FINANCIAL STATEMENTS

South Vernon Parish Waterworks District
Comparative Statement of Net Assets
December 31, 2004

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash - operating account (Note 2)	\$ 14,459	\$ 20,118
Ad valorem taxes receivable (Note 3)	36,551	33,461
Prepaid insurance	3,945	-----
Accounts receivable - water (Note 3)	<u>21,885</u>	<u>17,534</u>
Total current assets	<u>76,840</u>	<u>71,113</u>
Restricted assets:		
Debt service-cash and cash equivalents (Note 2)	64,782	58
Ad valorem taxes receivable-restricted (Note 3)	39,618	46,137
Revenue fund-cash (Note 2)	518	64,457
Depreciation and contingency fund-cash (Note 2)	35,321	29,042
Meter deposit fund-cash (Note 2)	10,271	10,680
Revenue note reserve fund (Note 2)	<u>135,410</u>	<u>-----</u>
Total restricted assets	<u>285,920</u>	<u>150,374</u>
Capital assets, net of accumulated depreciation (Note 4)	<u>2,677,546</u>	<u>2,762,275</u>
Total assets	<u>\$3,040,306</u>	<u>2,983,763</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current liabilities:		
Sales taxes payable	\$ 28	\$ 22
Accounts payable	2,697	3,396
Payroll taxes payable	1,256	882
Retirement deductions payable - unrestricted	736	749
Salaries payable	<u>2,682</u>	<u>----</u>
Total current liabilities	<u>7,399</u>	<u>5,049</u>
Current liabilities payable from restricted assets:		
Accrued interest payable (Note 5)	186,024	57,239
Retirement deductions payable - restricted	1,104	992
Current maturities - USDA Rural Development revenue bonds (Note 5)	1,147	33,953
Current maturities - general obligation bonds (Note 5)	15,000	15,000
Meter deposits	<u>4,900</u>	<u>13,573</u>
Total current liabilities payable from restricted assets	<u>208,175</u>	<u>120,757</u>
Long-term liabilities payable from restricted assets:		
USDA Rural Development revenue bonds (Note 5)	2,730,547	2,732,913
General obligation bonds (Note 5)	<u>197,000</u>	<u>212,000</u>
Total long-term liabilities payable from restricted assets	<u>2,927,547</u>	<u>2,944,913</u>
Total liabilities	<u>\$ 3,143,121</u>	<u>3,070,719</u>
Net Assets (deficit) (Note 7)		
Invested in capital assets, net of related debt	(257,601)	----
Restricted - debt service	275,649	29,617
Unrestricted	(126,234)	466,643
Restricted - meter deposits	<u>5,371</u>	<u>----</u>
Total net assets (deficit)	<u>\$(102,815)</u>	<u>(86,956)</u>

South Vernon Waterworks District No. 1
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the years ended December 31, 2004

	Year Ended	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Charges for sales and services:		
Water sales	\$ 265,184	\$198,535
Meter connections and penalties	<u>14,025</u>	<u>----</u>
Total operating revenues	<u>279,209</u>	<u>198,535</u>
Operating expenses:		
Current:		
Licenses and Permits	3,351	3,433
Ad valorem collections cost	1,839	1,945
Chemicals	8,903	8,148
Salaries and related costs	60,163	60,491
Rent expense	10,497	3,900
Insurance expense	16,938	15,585
Payroll tax expense	9,100	9,683
Auto and truck	8,547	
Board per diem	3,060	3,720
Phone & utilities	7,225	12,713
Supplies	6,016	6,137
Depreciation (Notes 4)	84,729	85,424
Repairs and maintenance	11,012	7,589
Legal/professional	3,240	3,845
Miscellaneous expense	<u>----</u>	<u>19,046</u>
Total operating expenses	<u>234,620</u>	<u>241,659</u>
Operating income (loss)	<u>44,589</u>	<u>(43,124)</u>
Nonoperating revenues (expenses):		
Interest income	502	1,683
Interest expense (Note 5)	(134,356)	(201,391)
State revenue sharing	554	555
Ad valorem taxes-restricted (Note 3)	45,796	32,842
Ad valorem taxes-unrestricted (Note 3)	26,553	25,263
Miscellaneous (Note 8)	<u>505</u>	<u>54,360</u>
Total nonoperating revenues (expenses)	<u>(60,446)</u>	<u>(86,688)</u>
Net decrease in net assets	(15,857)	(129,812)
Net assets (deficit), beg. balance (Note 7)	<u>(86,958)</u>	<u>42,854</u>
Net assets (deficit), ending (Note 7)	<u>\$(102,815)</u>	<u>(86,958)</u>
The accompanying notes are an integral part of this statement.		

South Vernon Waterworks District No. 1
Statement of Cash Flows
For the year ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from government sources

Cash received from customers

Cash payments to suppliers

For goods and service

Cash payments to employees for services

NET CASH PROVIDED BY OPERATING ACTIVITIES

114,809

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Ad valorem taxes

24,017

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Ad valorem taxes

52,316

Acquisition of property, plant and
equipment

Miscellaneous

505

Repayment of indebtedness

(50,172)

Interest paid

(5,570)

NET CASH PROVIDED BY CAPITAL FINANCING

(2,921)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received

502

INCREASE IN CASH

136,407

CASH, BEGINNING OF YEAR

124,354

CASH, END OF YEAR

\$260,761

CLASSIFIED AS:

Unrestricted

\$ 14,459

Restricted

246,302

TOTAL CASH

\$260,761

CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)

\$ 44,587

Adjustments to reconcile operating income

to net cash provided by operating activities

Depreciation

84,729

Changes in assets and liabilities:

Accounts receivables

(4,351)

Other current assets

(3,945)

Accounts payable

(700)

Other current liabilities

3,050

Retirement deduct payable

112

Customer deposits

(8,673)

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 114,809

South Vernon Waterworks District No. 1
Notes to the Financial Statements
December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South Vernon Waterworks District No 1 is a political subdivision of the Vernon Parish Police Jury, State of Louisiana. The District is governed by a board of commissioners, composed of five members, who serve with compensation and are appointed for terms of various years by the Vernon Parish Police Jury.

A. Reporting Entity

GASB Statement No. 14, The Reporting Entity, as amended, established criteria for determining the government reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a component unit, since it is a subdivision of the Vernon Parish Police Jury "Jury" that reports to the Jury. As used in GASB Statement No 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issued bonded debt. The District only does certain of the above functions and its board members are also appointed by the Jury, Thus the District is classified as a component unit.

B. Basis of Presentation

As stated above, effective January 1, 2004, the District adopted the provisions of Statement No. 34 and Statement No. 37. These statements established standards for external financial reporting for all state and governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

*Invested in capital assets, net of related debt: This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction or improvement of those assets.

* Restricted net assets: This component of net assets consists of constraints imposed by creditors (such as through debt covenants), contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

South Vernon Waterworks District No. 1
Notes to the Financial Statements
December 31, 2004

* Unrestricted net assets: This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

C. Fund Accounting

The accounts of the District are organized on the basis of an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds follow GAAP prescribed by the Government Accounting Standards Board and Financial Accounting Standards Board's Standards issued prior to November 30, 1989. Enterprise funds are accounted for on a flow of economic measurement focus. With this measurement focus, all assets and liabilities associated with the operating of these funds are included on the balance sheet. The operating statement presents increases (revenues) and decreases (expenses) in total net assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. The principal operating revenues of the District are charges for water sales. Operating expenses include costs of providing water services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

South Vernon Waterworks District No. 1
Notes to the Financial Statements
December 31, 2004

E. Cash

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

F. Capital Assets

All purchased capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation of all exhaustible capital assets is charged against operations. Depreciation is computed over the estimated useful lives ranging from 5 to 45 years using the straight-line method.

G. Compensated Absences

Vested or accumulated vacation and sick leave are recorded on the Vernon Parish Police Jury records as the benefits accrued to employees. No liability is recorded for compensated absences that relate to future service or that are contingent on a specific event that is outside the control of the employer and employees.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimated and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

South Vernon Waterworks District No. 1
Notes to the Financial Statements
December 31, 2004

2. CASH AND INVESTMENT COLLATERAL

Under state law, the District may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in United States bonds, treasury notes, time certificates of deposit of any bank domiciled or having a branch office in the State of Louisiana, investments as stipulated in state law, or any other federally insured investment.

At December 31, 2004, the District had cash and investments as follows:

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Cash (demand deposits) and certificates of deposit	<u>\$14,459</u>	<u>\$246,302</u>	<u>\$260,761</u>

At year end, the carrying amount of the District's deposits were \$287,074. A summary of collateralization of bank balances is presented below.

Insured (Federal deposit insurance)	\$100,000
Uncollateralized (In accordance with GAAP - See below)	<u>187,074</u>
	<u>\$ 287,074</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times at least equal the amount on deposit with the fiscal agent.

The uncollateralized amount shown above is secured by pledged securities with a market value of \$286,743 held in the name of the pledging fiscal agent banks in holding or custodial banks. Even though the pledged securities are considered uncollateralized under GAAP, Louisiana Revised Statutes impose a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

South Vernon Waterworks District No. 1
Notes to the Financial Statements
December 31, 2004

3. **RECEIVABLES**

Receivables at December 31, 2004 consist of the following:

Ad valorem taxes--unrestricted	\$ 36,551
Ad valorem taxes--restricted-sinking	39,618
State revenue sharing	---
Accounts Receivable - water	<u>21,885</u>
Net total receivables	<u>\$ 98,054</u>

The amount included in the ad valorem receivable on the balance sheet is for ad valorem taxes which attach as an enforceable lien on property as of January 1 of each year. Taxes are levied to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The District utilizes the Vernon Parish Tax Collector/Sheriff to bill and collect its property taxes using the assessed values determined by the tax assessor of Vernon Parish.

For the year ended December 31, 2004, taxes of 10.00 mils and 13.25 mils were levied on property with assessed valuation totaling at \$2,773,250 and was dedicated to the operations and maintenance and the sinking fund, respectively.

For the year ended December 31, 2004 total taxes levied were \$62,401. The receivable at December 31, 2004 consisted entirely of the current year assessment. Total collections and other adjustments resulted in total ad valorem tax revenue of \$71,795.

South Vernon Waterworks District No. 1
Notes to the Financial Statements (Continued)

NOTE 4--CAPITAL ASSETS

The following represents changes in capital assets for the year ended December 31, 2004 :

	Balance, <u>12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance, <u>12/31/04</u>
Land	\$ 15,000	\$ ---	\$ ---	\$ 15,000
Autos and trucks	22,669	---	---	22,669
Office equipment and fixtures	19,744	---	---	19,744
Water system	<u>3,291,970</u>	<u>---</u>	<u>---</u>	<u>3,291,970</u>
Total	<u>\$3,349,383</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$3,349,383</u>

Depreciation expense for the year ended December 31, 2004 , was \$84,729.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Autos and trucks	5 years
Improvements other than building	40-45 years
Furniture and equipment	3-10 years

NOTE 5--GENERAL LONG-TERM DEBT

Bonds payable activity for the year ended December 31, 2004 was as follows:

Bonds payable, December 31, 2003	\$227,000
Bonds issued	---
Bonds retired	<u>(15,000)</u>
Bonds payable, December 31, 2004	<u>\$ 212,000</u>

The above represents an original \$318,000 in general obligation bonds dated May 1, 1994; due in annual installments of \$1,000-\$28,500 through 2024; interest at 5.40%-9.00%.

South Vernon Waterworks District No. 1
Notes to the Financial Statements (Continued)

NOTE 6--GENERAL LONG-TERM DEBT (Continued)

USDA Rural Development Revenue Bonds payable activity for the year ended December 31, 2004 was comprised as follows:

	FHA		
	Rev. Bonds	Rev. Bonds	
	91-01	Series A	Totals
	91-03		
Balance at 12/31/03	\$2,701,229	\$84,391	\$2,785,620
Additions	---	---	---
Payments	<u>(52,707)</u>	<u>(1,219)</u>	<u>(53,926)</u>
Balance at 12/31/04	<u>\$2,648,522</u>	<u>\$83,172</u>	<u>\$2,731,694</u>

The USDA Rural Development Revenue Bonds Series A are being paid in a monthly payment of \$435 including principal and interest at 4.875%

During 2004, the USDA had the district pay into a special "revenue note reserve fund" bank account the originally scheduled \$13,099 monthly payment (ten of twelve payments were made). This account had \$135,410 in it at December 31, 2004 and will eventually be utilized by USDA to apply against Note #91-01, when a new rescheduling agreement is negotiated between USDA and the District. This \$135,410 is reflected in restricted assets.

The annual requirements to amortize FHA series A, "91-03" and general obligation bonds outstanding as of December 31, 2004, including interest payments of \$158,561, are as follows:

	<u>FHA Series A</u>	<u>GO Bonds</u>	<u>Totals</u>
2005	\$ 5,216	\$ 27,103	\$ 32,319
2006	5,216	27,400	32,616
2007	5,216	27,431	32,647
2008	5,216	27,388	32,604
2009	5,216	28,258	33,474
2010-2014	26,080	137,014	163,094
2015-2019	26,080	6,571	32,651
2020-2024	26,080	5,656	31,736
2025-2029	26,080	----	26,080
2030-2034	26,080	----	26,080
2035-2036	<u>10,432</u>	<u>-----</u>	<u>10,432</u>
Total	<u>\$166,912</u>	<u>\$ 286,821</u>	<u>453,733</u>

South Vernon Waterworks District No. 1
Notes to the Financial Statements (Continued)

NOTE 6--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance as outlined in the following table. Settled claims did not exceed commercial coverage for any of the past three fiscal years.

	<u>LIMITS OF COVERAGE</u>
Workmen's compensation	statutory
Auto liability	\$ 500,000
Commercial general liability	1,000,000
District-owned buildings and equipment	723,500

The District covers all other losses, claim settlements, and judgments from operating resources. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The District was not involved in any litigation nor did it have asserted claims lodged against it.

NOTE 7--NET ASSETS DEFICIT

The District has an unreserved - undesignated deficit of \$94,268 at December 31, 2004 . The District was awarded a CDBG grant in 1999 to expand its system, and this grant was funded in June 2002 . A contractor was selected in July 2002 and they began construction of new water lines in order to increase the District's customer base. These customers began paying for water services in early 2004 to the District and the District feels with these additional customers, and expanded residential construction, they improved their financial condition in 2004 and will continue improvement in 2005.

NOTE 8: MISCELLANEOUS INCOME

In January 2002, the District discovered that its former office secretary had embezzled funds over a period of time including the year 2001 and possibly previous years. The amount of loss and other associated costs were determined to be \$54,359.

This amount was collected in 2003 and recorded as other income because this income was stolen in prior years and was never originally recorded as water sales.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

ELLIOTT & ASSOCIATES, INC.
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W. Micheal Elliott, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
South Vernon Waterworks District No. 1
Rosepine, Louisiana

I have audited the financial statements of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2004 , and have issued my report thereon dated September 14, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the South Vernon Waterworks District No. 1's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance that are required to be reported under *government Auditing Standards*:

2004.1 Finding: This audit report is not being issued within the six months of the close of its December 31, 2004 fiscal year-end. This is a violation of LSA R.S. #24:513 (A) (5) (a).

Management Response:

The district was implenting a new accounting system in 2004 which is still not fully functional. This caused significant delays in generating all the necessary financial data.

2004.2 Finding: The District did not make all of its required transfer of \$13,068 into the specified designated reserve account to be utilized later by USDA to offset against Note #91-01 in the debt rescheduling process.

Management Response:

For most of 2004 and through September 2005, the district paid Note #91-01 for its USDA revenue bonds into an account described in footnote # 6 to later reschedule the debt. The district continues to increase its customer base with new housing starts and small planned expansion projects.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the South Vernon Waterworks District No. 1's *internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provided assurance on the internal control over financial reporting.* My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

This report is intended solely for the information of the Board of Directors and management of the South Vernon Waterworks District and the Legislative Auditor's office of the State of Louisiana. This report is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statue 24:513, this report is distributed by Legislative Auditor as a public document.

Elliott & Assoc. "APAC"

Leesville, Louisiana

September 14, 2005

South Vernon Waterworks District No. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended December 31, 2004

I have audited the financial statements of South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2004 , and have issued my report thereon dated September 14, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of December 31, 2004 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

*a. Report on Internal Control and Compliance
Material to the Financial Statements*

Internal Control

Material Weaknesses ☐ Yes ☒ No

Reportable Conditions ☐ Yes ☒ No

Compliance

Compliance Material to Financial
Statements ☒ Yes ☐ No

b. Federal Awards

Internal Control

Material Weaknesses ☐ Yes ☐ No ☒ N/A

Reportable Conditions ☐ Yes ☐ No ☒ N/A

Type of Opinion On Compliance For Major Programs

Unqualified ☐ Qualified ☐

Disclaimer ☐ Adverse ☐

N/A ☒

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)?
☐ Yes ☐ No ☒ N/A

c. Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
-----------------------	--------------------------------

None

None

Dollar threshold used to distinguish between Type A and Type B Programs:

\$ N/A

Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133?

☐ Yes ☐ No ☒ N/A

Section II Financial Statement Findings

2004.1- Finding- This audit report is not being issued within the six months of the close of its December 31, 2004 fiscal year end. This is a violation of LSA R.S.#24:513 (A) (5) (a).

2004.2- Finding - The District did not make all of its required transfer of \$13,068 into the specified designated reserve account to be utilized later by USDA to offset against Note #91-01 in the debt rescheduling process.

Section III Federal Award Findings and Questioned Costs

N/A

See independent auditor's report.

SUPPLEMENTAL INFORMATION

South Vernon Waterworks District No. 1
 COMPENSATION OF BOARD MEMBERS
 For the year ended December 31, 2004

The schedule of per diem paid to board members was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 session of the Legislature.

As provided by Louisiana Revised Statute 33:4564, District board members received \$60 per diem for attendance at meetings of the board in 2003.

	<u>Number Attended</u>	<u>Amount</u>
Barbara Bartlett	12	\$ 720
Bill Churchman	12	720
Mack Davis	8	480
Deborah Dixon	8	480
Mack Goins	4	240
Elmer Moses	3	180
Marian Van Tassel	<u>6</u>	<u>240</u>
Total	<u>51</u>	<u>\$ 3,060</u>

See independent auditor's report.

South Vernon Waterworks District No. 1
SCHEDULE OF PRIOR YEAR FINDINGS
For the Fiscal Year Ended December 31, 2004

**SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENTS**

2003.1 At December 31, 2003, the District was delinquent in paying its scheduled debt service to the USDA; this is a violation of Louisiana R.S. 39:569.1 because the District did not notify the Legislative Auditor of its loan default.

**SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL
AWARDS**

There were no prior year findings relating to internal control and compliance material to federal awards.

SECTION III MANAGEMENT LETTER

There was no management letter with prior year audit report.

See independent auditor's report.

South Vernon Waterworks District No. 1
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Fiscal Year Ended December 31, 2004

**SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENT**

Management Response

2004.1 - The Board will have its December 31, 2005 audit completed by June 30, 2006.

2004.2 - The District as of September 2005 has now made all of its scheduled transfers into the special USDA bank account and will continue to strive to do so.

**SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL
AWARDS**

N/A

SECTION III MANAGEMENT LETTER

N/A

See independent auditor's report.